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uMngeni Municipality

Financial statements
for the year ended 30 June 2013

General Information

Mayoral committee	
Mayor	Mrs MP Myeni
Councillors	Cllr TP Mchunu
	Cllr SR Majozi
	Cllr PA Passmoor
	Cllr STJ Ndlovu
	Cllr MJ Grueneberg
	Cllr SK Pillay
	Cllr GT Dlamini
	Cllr SD Nkuna
	Cllr JE Holmes
	Cllr TG Nxele
	Cllr TS Ndlovu
	Cllr BA Zuma
	Cllr HP Ndlela
	Cllr TA Duggan
	Cllr FT Cele
	Cllr CRW Millar
	Cllr NJ Lewis
	Cllr FG Mthembu
	Cllr JM Zondi
	Cllr LP Phikwane
	Cllr JA Mkhasibe
Grading of local authority	3
Accounting Officer	Dr MB Ngubane
Chief Finance Officer (CFO)	Mrs SZ Soji
Registered office	Corner Dicks and Somme Streets Howick 3290
Postal address	P O Box 5 Howick 3290
Banker	ABSA Bank
Auditor	Auditor General

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these are:

Bi weekly meetings in the form of the Interim Finance Committee, to plan and approve only essential expenditure for the forthcoming weeks and to ensure that the unspent conditional grants are moving to a position of being cash backed.
Two other committees have also being formed after Provincial Treasury provided support to help the Municipality recover from the cash flow challenges it faces. The Credit control and Valuation sub-committees meet monthly to tackle revenue enhancement issues by addressing the issue of outstanding debtors and valuation queries respectively. These committees have already achieved success by requesting all stakeholders involved in revenue enhancement to account monthly and provide direction on how to maximise revenue and reduce the outstanding debtors.

Council and the Interim Finance committee is committed to turning the situation around and has frozen all vacant posts in order to curb expenditure, except critical posts or those funded by the conditional grants. There is also an action plan to further reduce expenditure and implement cost-cutting measures to aid financial recovery. Council still has to adopt the plan.

On the technical side, excess electricity losses have been identified and corrective action is being taken to remedy the situation by the Development of Consumer loss Analysis programme (CLA). This programme was specifically written to identify the electricity losses due to technical issues, theft of electricity, illegal connections, and metered installations and correct the electricity billing cycle.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit. The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The financial statements set out on pages 5 to 55, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013 and were signed on its behalf by:

Accounting Officer

Approval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 55 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 27 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Municipal Manager
30 August 2013

Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012
Assets			
Current Assets			
Operating lease asset		28,991	51,362
Other receivables	7	2,978,258	2,516,448
Consumer debtors	8	39,914,465	40,770,707
Investments	6	16,791,346	2,415,024
Cash and cash equivalents	9	216,187	208,754
		59,929,247	**45,962,295**
Non-Current Assets			
Property, plant and equipment	3	587,861,025	606,383,373
Intangible assets	4	116,825	40,675
		587,977,850	**606,424,048**
Total Assets		**647,907,097**	**652,386,343**
Liabilities			
Current Liabilities			
Annuity loans	12	6,147,897	6,272,969
Finance lease obligation	13	515,594	949,661
Trade and other payables from exchange transactions	16	29,499,309	39,233,421
VAT payable	17	2,415,503	2,557,140
Consumer deposits	18	2,209,889	2,160,881
Retirement benefit obligation	5	1,069,000	1,657,439
Unspent conditional grants and receipts	14	16,624,540	13,661,956
Bank overdraft	9	4,490,966	6,204,218
		62,972,698	**72,697,685**
Non-Current Liabilities			
Annuity loans	12	31,816,209	34,058,881
Finance lease obligation	13	563,834	1,205,026
Retirement benefit obligation	5	25,273,306	18,347,867
Provisions	15	14,069,966	12,675,645
		71,723,315	**66,287,419**
Total Liabilities		**134,696,013**	**138,985,104**
Net Assets		**513,211,084**	**513,401,239**
Net Assets			
Reserves			
Revaluation reserve	10	151,770,228	151,770,228
Housing operating account	11	15,681,238	14,847,289
Accumulated surplus		345,759,618	346,783,722
Total Net Assets		**513,211,084**	**513,401,239**

Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012
Revenue			
Service charges	21	56,526,700	58,637,395
Rental of facilities and equipment	20	832,857	950,702
Licences and permits		1,916,480	1,929,645
Departmental charges		-	14,676,690
Other income	23	4,973,631	7,980,143
Interest revenue	29	2,455,038	1,284,679
Property rates	20	100,902,494	91,124,460
Property rates - penalties imposed and collection charges	20	3,867,599	2,319,310
Government grants and subsidies	22	66,520,829	57,259,012
Fines		5,579,150	3,822,767
Total revenue		**243,574,778**	**239,984,803**
Expenditure			
Personnel	26	(75,194,548)	(73,267,455)
Remuneration of councillors	27	(5,465,393)	(5,167,878)
Depreciation and amortisation	30	(44,140,849)	(20,927,011)
Finance costs	31	(5,991,748)	(6,140,405)
Bad debts	28	(14,542,979)	(18,585,422)
Collection costs		(961,269)	(177,207)
Repairs and maintenance		(4,931,688)	(3,558,496)
Bulk purchases	33	(60,661,783)	(51,624,822)
Contracted services		(1,114,938)	(1,063,011)
Grant expenditure	25	(4,945,743)	(2,378,898)
Departmental recharges		-	(14,676,690)
General expenses	24	(27,181,671)	(41,066,820)
Total expenditure		**(245,132,609)**	**(238,634,115)**
Operating (deficit) surplus		**(1,557,831)**	**1,350,688**
Loss on disposal of assets and liabilities		(22,427)	(65,314)
(Deficit) surplus for the year		**(1,580,258)**	**1,285,374**
Attributable to:			
Owners of the controlling entity		(1,580,258)	1,285,374

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Housing operating account	Total reserves	Accumulated surplus	Total net assets
Balance at 01 July 2011 restated	**153,828,042**	**15,286,278**	**169,114,320**	**104,526,087**	**273,640,407**
Prior year adjustment (Refer note 47)	-	-	-	2,124,268	2,124,268
Net income recognised directly in net assets	-	-	-	2,124,268	2,124,268
Surplus for the year	-	-	-	1,285,373	1,285,373
Total recognised income and expenses for the year	-	-	-	3,409,641	3,409,641
Interest paid - low cost housing	-	825,459	825,459	(825,459)	-
Transfer of funds to Housing operating account	-	(1,264,448)	(1,264,448)	1,264,448	-
Prior period error (Refer note 47)	18,745,273	-	18,745,273	234,500,209	253,245,482
Revaluation surplus winddown	(20,803,087)	-	(20,803,087)	-	(20,803,087)
Consumer debtor corrections	-	-	-	3,908,796	3,908,796
Total changes	(2,057,814)	(438,989)	(2,496,803)	242,257,635	239,760,832
Balance at 01 July 2012 restated	**151,770,228**	**14,847,289**	**166,617,517**	**346,783,722**	**513,401,239**
Prior period error (Refer note 47)	-	-	-	556,154	556,154
Net income recognised directly in net assets	-	-	-	556,154	556,154
Deficit for the year	-	-	-	(1,580,258)	(1,580,258)
Total recognised income and expenses for the year	-	-	-	(1,024,104)	(1,024,104)
Proceeds of sale due to housing fund	-	8,490	8,490	-	8,490
Interest paid - low cost housing	-	825,459	825,459	-	825,459
	-	833,949	833,949	(1,024,104)	(190,155)
Balance at 30 June 2013	**151,770,228**	**15,681,238**	**167,451,466**	**345,759,618**	**513,211,084**
Note(s)	10				

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Sale of goods and services		148,442,913	159,597,559
Grants		69,431,353	47,139,698
Interest revenue		2,455,038	1,284,679
Other receipts		6,890,111	24,586,478
Fines		5,579,150	3,822,767
		232,798,565	236,431,181
Payments			
Employee costs		(80,659,941)	(78,435,333)
Suppliers		(100,792,600)	(131,202,663)
Finance costs		(5,991,748)	(6,140,405)
		(187,444,289)	(215,778,401)
Net cash flows from operating activities	34	**45,354,276**	**20,652,780**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(25,589,978)	(26,528,233)
Proceeds from sale of property, plant and equipment	3	-	478,799
Proceeds from sale of investment property		-	925,000
Purchase of other intangible assets	4	(273,295)	(32,392)
(Increase)/decrease in investments		(14,376,322)	792,751
Net cash flows from investing activities		**(40,239,595)**	**(24,364,075)**
Cash flows from financing activities			
Decrease in borrowings		(2,367,744)	(1,563,312)
Movement in consumer deposits		49,008	111,157
Increase in finance lease liability		(1,075,260)	575,241
Net cash flows from financing activities		**(3,393,996)**	**(876,914)**
Net increase/(decrease) in cash and cash equivalents		**1,720,685**	**(4,588,209)**
Cash and cash equivalents at the beginning of the year		(5,995,464)	(1,407,255)
Cash and cash equivalents at the end of the year	9	**(4,274,779)**	**(5,995,464)**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	66,082,755	-	**66,082,755**	56,526,700	**(9,556,055)**	E1
Rental of facilities and equipment	1,001,840	-	**1,001,840**	832,857	**(168,983)**	E1
Licences and permits	1,878,802	-	**1,878,802**	1,916,480	**37,678**	E1
Other income - (rollup)	14,130,168	(986,090)	**13,144,078**	4,973,631	**(8,170,447)**	E1
Interest received - investment	300,000	-	**300,000**	2,455,038	**2,155,038**	E1
Total revenue from exchange transactions	**83,393,565**	**(986,090)**	**82,407,475**	**66,704,706**	**(15,702,769)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	101,795,255	1,628,855	**103,424,110**	100,902,494	**(2,521,616)**	E2
Property rates - penalties imposed	-	-	**-**	3,867,599	**3,867,599**	
Government grants & subsidies	39,707,000	6,301,000	**46,008,000**	66,520,829	**20,512,829**	E3
Transfer revenue						
Fines	6,262,718	-	**6,262,718**	5,579,150	**(683,568)**	
Total revenue from non-exchange transactions	**147,764,973**	**7,929,855**	**155,694,828**	**176,870,072**	**21,175,244**	
Total revenue	**231,158,538**	**6,943,765**	**238,102,303**	**243,574,778**	**5,472,475**	
Expenditure						
Personnel	(78,815,271)	-	**(78,815,271)**	(75,194,548)	**3,620,723**	E4
Remuneration of councillors	-	-	**-**	(5,465,393)	**(5,465,393)**	E5
Depreciation and amortisation	(9,704,112)	-	**(9,704,112)**	(44,140,849)	**(34,436,737)**	
Finance costs	(4,209,000)	-	**(4,209,000)**	(5,991,748)	**(1,782,748)**	
Debt impairment	(3,000,000)	-	**(3,000,000)**	(14,542,979)	**(11,542,979)**	E6
Collection costs	(961,400)	-	**(961,400)**	(961,269)	**131**	
Repairs and maintenance	(10,219,652)	-	**(10,219,652)**	(4,931,688)	**5,287,964**	
Bulk purchases	(58,864,772)	(5,658,334)	**(64,523,106)**	(60,661,783)	**3,861,323**	E7
Contracted Services	(4,500,000)	2,500,000	**(2,000,000)**	(1,114,938)	**885,062**	E8
Grants and subsidies paid	(39,707,000)	(6,301,000)	**(46,008,000)**	(4,945,743)	**41,062,257**	
General Expenses	(13,655,793)	(3,741,000)	**(17,396,793)**	(27,181,671)	**(9,784,878)**	E9
Total expenditure	**(223,637,000)**	**(13,200,334)**	**(236,837,334)**	**(245,132,609)**	**(8,295,275)**	
Operating deficit	**(223,637,000)**	**(13,200,334)**	**(236,837,334)**	**(1,557,831)**	**235,279,503**	
Loss on disposal of assets and liabilities	-	-	**-**	(22,427)	**(22,427)**	
Deficit before taxation	**(223,637,000)**	**(13,200,334)**	**(236,837,334)**	**(1,580,258)**	**235,257,076**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(223,637,000)**	**(13,200,334)**	**(236,837,334)**	**(1,580,258)**	**235,257,076**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Operating lease asset	-	-	**-**	28,991	**28,991**	
Other receivables	-	-	**-**	2,978,258	**2,978,258**	
Consumer debtors	60,000,000	5,751,083	**65,751,083**	39,914,465	**(25,836,618)**	E11
Investments	1,700,000	7,297,646	**8,997,646**	16,791,346	**7,793,700**	E12
Cash and cash equivalents	4,760	-	**4,760**	216,187	**211,427**	E13
	61,704,760	**13,048,729**	**74,753,489**	**59,929,247**	**(14,824,242)**	
Non-Current Assets						
Investment property	951,667	951,667	**1,903,334**	-	**(1,903,334)**	E14
Property, plant and equipment	384,820,473	-	**384,820,473**	587,861,025	**203,040,552**	E15
Intangible assets	-	-	**-**	116,825	**116,825**	
	385,772,140	**951,667**	**386,723,807**	**587,977,850**	**201,254,043**	
Total Assets	**447,476,900**	**14,000,396**	**461,477,296**	**647,907,097**	**186,429,801**	
Liabilities						
Current Liabilities						
Annuity loans	-	-	**-**	6,147,897	**6,147,897**	
Finance lease obligation	8,707,000	-	**8,707,000**	515,594	**(8,191,406)**	E16
Trade and other payables from exchange transactions	55,000,000	(27,850,757)	**27,149,243**	29,499,309	**2,350,066**	E17
VAT payable	-	-	**-**	2,415,503	**2,415,503**	
Consumer deposits	2,000,000	-	**2,000,000**	2,209,889	**209,889**	
Retirement benefit obligation	-	-	**-**	1,069,000	**1,069,000**	
Unspent conditional grants and receipts	-	-	**-**	16,624,540	**16,624,540**	E18
Bank overdraft	-	-	**-**	4,490,966	**4,490,966**	
	65,707,000	**(27,850,757)**	**37,856,243**	**62,972,698**	**25,116,455**	
Non-Current Liabilities						
Annuity loans	37,557,000	-	**37,557,000**	31,816,209	**(5,740,791)**	
Finance lease obligation	-	-	**-**	563,834	**563,834**	
Retirement benefit obligation	-	-	**-**	25,273,306	**25,273,306**	
Provisions	26,000,000	-	**26,000,000**	14,069,966	**(11,930,034)**	
	63,557,000	**-**	**63,557,000**	**71,723,315**	**8,166,315**	
Total Liabilities	**129,264,000**	**(27,850,757)**	**101,413,243**	**134,696,013**	**33,282,770**	
Net Assets	**318,212,900**	**41,851,153**	**360,064,053**	**513,211,084**	**153,147,031**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	-	-	**-**	151,770,228	**151,770,228**	
Capital replacement reserve	-	-	**-**	15,681,238	**15,681,238**	
Accumulated surplus	153,683,000	-	**153,683,000**	345,759,618	**192,076,618**	
Total Net Assets	**153,683,000**	**-**	**153,683,000**	**513,211,084**	**359,528,084**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Fines	6,262,718	-	**6,262,718**	5,579,150	**(683,568)**	E19
Grants	55,897,000	5,722,000	**61,619,000**	69,431,353	**7,812,353**	E19
Interest income	300,000	-	**300,000**	2,455,038	**2,155,038**	E19
Sale of goods	69,502,010	-	**69,502,010**	148,442,913	**78,940,903**	E19
Other receipts	84,477,853	154,243,236	**238,721,089**	6,890,111	**(231,830,978)**	E19
	216,439,581	**159,965,236**	**376,404,817**	**232,798,565**	**(143,606,252)**	
Payments						
Employee costs	78,815,333	-	**78,815,333**	80,659,941	**1,844,608**	
Suppliers and other payments	128,331,272	-	**128,331,272**	100,792,600	**(27,538,672)**	
Finance costs	4,208,846	-	**4,208,846**	5,991,748	**1,782,902**	
	211,355,451	**-**	**211,355,451**	**187,444,289**	**(23,911,162)**	
Net cash flows from operating activities	**427,795,032**	**159,965,236**	**587,760,268**	**420,242,854**	**(167,517,414)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	-	-	**-**	(25,589,978)	**(25,589,978)**	E20
Purchase of other intangible assets	-	-	**-**	(273,295)	**(273,295)**	
Purchase of investments	-	-	**-**	(14,376,322)	**(14,376,322)**	E20
Net cash flows from investing activities	**-**	**-**	**-**	**(40,239,595)**	**(40,239,595)**	
Cash flows from financing activities						
Repayment of annuity loans	-	-	**-**	(2,367,744)	**(2,367,744)**	E21
Movement in consumer deposits	-	-	**-**	49,008	**49,008**	E21
Movement in finance lease obligation	-	-	**-**	(1,075,260)	**(1,075,260)**	
Net cash flows from financing activities	**-**	**-**	**-**	**(3,393,996)**	**(2,318,736)**	
Net increase/(decrease) in cash and cash equivalents	427,795,032	159,965,236	**587,760,268**	1,720,685	**(210,075,745)**	
Cash and cash equivalents at the beginning of the year	-	-	**-**	(5,995,464)	**(5,995,464)**	
Cash and cash equivalents at the end of the year	**427,795,032**	**159,965,236**	**587,760,268**	**(4,274,779)**	**(216,071,209)**	

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, in accordance with section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand, which is the functional currency of the of the municipality and are rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

In the absence of an issued and effective standard of GRAP accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10, and 11 of GRAP 3 as read with Derective 5.

These accounting policies are consistent with the previous period, unless specified otherwise.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, at weighted average percentage of 15% based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Consumer debtors are expected to be realised within 12 months after the reporting date.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norms. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.1 Transfer of functions between entities under common control (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 5.

1.2 Standards, amendments to standards and interpretations issued but not yet effective

The municipality will apply all new standards issued by the date stipulated by the Minister of Finance. At year end, the municipality was still determining the extent to which the new standards will impact the accounting of the municipality. The municipality has elected to use these standards to inform the accounting policies that follow.

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18	Segment reporting
GRAP 20	Related Party disclosures
GRAP 25	Employee benefits
GRAP 105	Transfer of functions between entities under common control
GRAP 106	Transfer of functions between entities not under common control
GRAP 107	Mergers

The municipality has not applied the above accounting statements and interpretations that have been issued but are not yet effective for the current financial year but have applied their principles in forming the related accounting policies.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.3 Investment property (continued)

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	**Useful life**
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include amounts incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to or, replace part of it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

1.4 Property, plant and equipment (continued)

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for infrastructure assets, electrical assets and roads and waste water network which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

It is the policy of the Municipality to perform revaluations every four years.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Land	indefinite
Buildings	30 years
Plant and machinery	
• Specialised	10-15 years
• Other	7-10 years
Furniture and fixtures	15 years
Motor vehicles	
• Specialised vehicles	10 years
• Other motor vehicles	5 years
Office equipment	3 years
Computer equipment	5 years
Infrastructure	
• Roads and paving	30 years
• Pedestrian malls	30 years
• Electricity	20 -30 years
• Housing	30 years
Community	
• Buildings	30 years
• Recreational facilities	20-30 years
• Security	5 years
Bins and containers	5 years
Water network	15 years
Landfill sites	15 years

Heritage assets

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Heritage assets are carried at cost less accumulated depreciation.

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:
- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.6 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

For an intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

1.6 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	1-3 years

1.7 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Held-to-maturity investment
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

1.7 Financial instruments (continued)

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired.

The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Consumer debtors

Consumer debtors are initially recognised at fair value, and are subsequently measured at amortised cost.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are initially recorded at fair value, and subsequently measured at amortised cost, using the effective interest rate method.

1.7 Financial instruments (continued)

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Long term loans

Long term loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.8 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Impairment of cash-generating assets and non-cash generating assets

The municipality assesses at each reporting date whether there is an indication that an asset may be impaired. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash-generating assets), the asset is considered impaired and is written down to its recoverable amount (or recoverable service amount).

An asset’s recoverable amount (or recoverable service amount) is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger cash generating unit, in which case the recoverable amount (or recoverable service amount) is determined for the whole cash generating unit.

An asset is part of a cash generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

In determining the recoverable amount (or recoverable service amount) of an asset the municipality evaluates the asset to determine whether the asset is a cash generating asset or non-cash generating asset.

For cash generating assets the value in use is determined as a function of the discounted future cash flows from the asset.
- Depreciated replacement cost approach – The current replacement cost of the asset is used as the basis for this value. This current replacement cost is depreciated for a period equal to the period that the asset has been in use so that the final depreciated replacement cost is representative of the age of the asset.

- Restoration cost approach - Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.

- Service units approach - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state.

The decision as to which approach to use is dependent on the nature of the identified impairment.
In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
In determining fair value less costs to sell, other fair value indicators are used.

Impairment losses of continuing operations are recognised in the statement of financial performance in those expense categories consistent with the function of the impaired asset.
An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the municipality makes an estimate of the assets or cash-generating unit's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of financial performance unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

1.10 Employee benefits (continued)

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets.

Other post retirement obligations

The municipality provides post-retirement health care benefits and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.11 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

1.11 Provisions and contingencies (continued)

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating losses.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, volume rebates and value-added taxes (VAT).

1.12 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service charges for electricity are based on consumption by consumers as is recorded on each consumer's meter.

Meters are read each month and the revenue is recognised in the period in which invoices are raised.

Provisional estimates of consumption are made in periods where meter readings have not been able to be carried out. The revenue from these provisional readings is also recognised as revenue when invoiced.

Adjustments to provisional estimates and recognition of the amended revenue arising as a result, are made in the invoicing period in which meters are read.

Revenue from the sale of electricity prepaid meter cards is recognised immediately in revenue.

Service charges for refuse removal are raised and recognised on a monthly basis in arrears.

Refuse charges are based on the application of the approved tariff to each property that has improvements, the category of property usage and the number of refuse containers on each property regardless of whether or not containers are emptied during the month.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service has been rendered and the fee has been charged or licenses and permits have been issued.

Income from agency services is recognised on a monthly basis once the income collected from agents has been quantified and the terms of the agency agreement have been complied with.

Interest

Interest is recognised in surplus or deficit using the effective interest rate method.

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipality receives value from another municipality without directly giving approximately equal value in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates and value-added taxes (VAT).

1.13 Revenue from non-exchange transactions (continued)

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Penalty interest is raised on unpaid rates after the due date for payment and is recognised on a time proportion basis.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of spot fines and summonses is recognised when payment is received.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.14 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.15 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:
- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

Accounting Policies

1.15 Borrowing costs (continued)

The capitalisation of borrowing costs commences when all the following conditions have been met:
- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.17 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Presentation currency

These financial statements are presented in South African Rand.

1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.22 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Accounting Policies

1.23 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

1.24 Housing Development Fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund.

Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.25 Related parties

The municipality has processes and controls in place to aid in the identification of related parties. A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Where transactions occurred between the entity any one or more related parties, and those transactions were not within:
- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by the reporting entity's legal mandate;

1.26 Work in progress

The cost of items of property, plant and equipment that under construction as of the reporting date is recognised as an asset if:
- it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and
- the cost or fair value of the item(s) can be measured reliably.

Assets under construction consist of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. The expenditure comprises direct labour, materials and overheads, if appropriate.

When assets under construction are completed and certificates of completion issued, they are transferred to the appropriate asset class.

Assets under construction are not depreciated as they are not in a condition necessary for it to be capable of operating in the manner intended by management.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 23: Revenue from Non-exchange Transactions	01 April 2012
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012
• GRAP 103: Heritage Assets	01 April 2012
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012
• GRAP 26: Impairment of cash-generating assets	01 April 2012
• GRAP 104: Financial Instruments	01 April 2012

Notes to the Financial Statements

Figures in Rand

3. Property, plant and equipment

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	228,130,178	-	228,130,178	228,130,178	-	228,130,178
Buildings	77,747,272	(13,036,503)	64,710,769	77,747,272	(10,499,929)	67,247,343
Motor vehicles	8,907,351	(6,884,822)	2,022,529	9,152,482	(6,181,228)	2,971,254
Infrastructure	34,061,811	(7,783,197)	26,278,614	34,061,811	(6,621,917)	27,439,894
Electrical	92,725,077	(14,501,145)	78,223,932	92,725,077	(11,400,624)	81,324,453
Toolbox	6,559,478	(3,963,635)	2,595,843	6,507,294	(4,229,663)	2,277,631
Roads and water network	270,852,602	(87,627,115)	183,225,487	246,006,691	(51,687,744)	194,318,947
Heritage	2,935,873	(262,200)	2,673,673	2,935,873	(262,200)	2,673,673
Total	**721,919,642**	**(134,058,617)**	**587,861,025**	**697,266,678**	**(90,883,305)**	**606,383,373**

Notes to the Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Work in progress	Disposals	Depreciation	Total
Land	228,130,178	-	-	-	-	228,130,178
Buildings	67,247,343	-	-	-	(2,536,574)	64,710,769
Motor vehicles	2,971,254	-	-	(151,165)	(797,560)	2,022,529
Infrastructure	27,439,894	-	-	-	(1,161,280)	26,278,614
Electricity	81,324,453	-	-	-	(3,100,521)	78,223,932
Tool box	2,277,631	744,067	-	(17,458)	(408,397)	2,595,843
Roads and Storm water network	194,318,947	-	24,845,911	-	(35,939,371)	183,225,487
Heritage	2,673,673	-	-	-	-	2,673,673
	606,383,373	**744,067**	**24,845,911**	**(168,623)**	**(43,943,703)**	**587,861,025**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Work in progress	Disposals	Depreciation	Total
Land	228,130,178	-	-	-	-	228,130,178
Buildings	68,100,267	-	1,650,050	-	(2,502,974)	67,247,343
Motor vehicles	2,683,699	1,767,631	-	(408,891)	(1,071,185)	2,971,254
Infrastructure	28,600,736	-	-	-	(1,160,842)	27,439,894
Electrical	81,564,263	2,839,601	-	-	(3,079,411)	81,324,453
Tool box	2,727,563	83,780	-	-	(533,712)	2,277,631
Roads and storm water network	207,342,047	3,764,893	16,422,278	-	(33,210,271)	194,318,947
Heritage	2,769,360	-	-	-	(95,687)	2,673,673
	621,918,113	**8,455,905**	**18,072,328**	**(408,891)**	**(41,654,082)**	**606,383,373**

Assets subject to finance lease (Net carrying amount)

Motor vehicles	1,371,096	2,052,380

Notes to the Financial Statements

Figures in Rand	2013	2012

4. Intangible assets

	2013			2012		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	334,156	(217,331)	116,825	60,861	(20,186)	40,675

Reconciliation of intangible assets - 2013

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	40,675	273,295	(197,145)	116,825

Reconciliation of intangible assets - 2012

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	24,071	32,392	(15,788)	40,675

5. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The Council operates a defined medical aid benefit scheme for the benefit of its permanent employees.

Post-retirement medical aid benefits are offered to all employees by subsidising a portion of the medical aid contribution after retirement.

The post-retirement medical aid subsidy for qualifying employees is 60% of the applicable medical aid.

The post-retirement medical aid for qualifying pensioners is 60% or 67% of the total monthly contribution to the applicable medical aid. Widow(er)s and orphans of eligible in-service members are not entitled to receive a subsidy on and after the death in-service of an employee.

The most recent actuarial valuation was performed on 30 June 2013 by One Pangaea Financial using the Projected Unit Credit Method.

The full liability has been recognised as at the date of the statement of financial postion.

Post retirement gratuity plan

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries of commencing service and a retirement gift determined by reference to length of service.

The most recent actuarial valuation was performed on 30 June 2013 by One Pangaea Financial using the Projected Unit Credit Method.

Notes to the Financial Statements

Figures in Rand	2013	2012

5. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

	2013	2012
Carrying value		
Opening balance	(20,005,306)	(18,568,152)
Future service cost	(1,007,000)	(1,001,237)
Interest cost	(1,669,000)	(1,525,267)
Benefit payments	928,000	869,065
Actuarial (losses)/gains	(4,589,000)	220,285
Net liability	**(26,342,306)**	**(20,005,306)**
Non-current liabilities	(25,273,306)	(18,347,867)
Current liabilities	(1,069,000)	(1,657,439)
	(26,342,306)	**(20,005,306)**

Net expense recognised in the statement of financial performance

	2013	2012
Future service cost	1,007,000	1,001,237
Interest cost	1,669,000	1,525,627
Actuarial gains/(losses)	4,589,000	(220,285)
Curtailment or settlement	(928,000)	(869,065)
Total included in employee related costs	**6,337,000**	**1,437,514**

Key assumptions used

Assumptions used at the reporting date:

	2013	2012
Discount rates used	7.25 %	8.38 %
Health care cost inflation rate	6.75 %	7.07 %
Expected rate of return on assets	- %	7.07 %
Salary increase rate	7.15 %	6.23 %
Medical cost trend rates	- %	7.07 %
Net effective discount rate	0.47 %	1.22 %
Retirement age		
Female	65	65
Male	65	65

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	**One percentage point decrease**
Effect on the aggregate of the service cost and interest cost	3,312,000	2,049,000
Effect on defined benefit obligation	26,864,000	18,098,000

Notes to the Financial Statements

Figures in Rand	2013	2012

5. Employee benefit obligations (continued)

Defined contribution plan

Joint pension fund

All municipal councillors and employees belong to The Natal Joint Municipal Pension Fund (Superannuation) and The Natal Joint Municipal Pension Fund (Retirement) which are administered by the Province.

These schemes cannot be broken down per municipality, as they are considered to be multi-employer schemes and hence are treated as defined contribution schemes by the municipality.

Municipal employees are also members of the KwaZulu Natal Joint Municipal Provident Fund, South African Local Authorities (SALA) Provident and Retirement Funds.

All contributions have been included in the employee related cost note.

6. Investments

Unlisted investments		
Collateral security fixed deposits - Rand Merchant Bank	1,211,351	1,157,865
Notice deposits - Absa Bank	2,008,270	1,093,402
Midlands development agency	20,274	163,757
Fixed deposits - Absa Bank	12,225,654	-
Fixed deposits - FNB	1,325,797	-
	16,791,346	**2,415,024**

Council's valuation of unlisted investments	3,129,621	2,251,267
Average rate of return on investments	5%	5%
investments pledged as collateral security for loans	1,211,351	1,157,865

Midlands Development Agency

The municipality is part of the Development agency established between uMngeni Municipality, Mpofana and uMtshezi Municipalities. For the period under review, the development agency was still in the process of appointing a Board to run the affairs of the Agency. The Agency is funded by the IDC and a bank account is held in the name of uMngeni Municipality, until the Board is appointed to take control of the affairs of the agency.

The bank balance was R 60 823 as at 30 June 2013 (2012: R 491 271) held at ABSA Bank Ltd. The Municipality has recognised 1 third of the bank balance as an investment.

7. Other receivables

Other receivables	2,978,258	2,516,448

Notes to the Financial Statements

Figures in Rand	2013	2012

8. Consumer Debtors

Consumer debtors	69,384,305	67,199,508
Less: Provision for bad debts	(29,469,840)	(26,428,801)
	39,914,465	**40,770,707**

Gross amounts		
Rates	45,417,975	36,026,873
Electricity	14,379,263	22,217,981
Refuse	1,910,563	1,607,630
Housing rental	482,309	365,181
Legal costs	74,236	76,479
Sundry debtors	7,119,959	6,905,364
	69,384,305	**67,199,508**

Less: Provision for bad debts		
Rates	22,726,409	3,979,679
Electricity	5,836,108	18,857,262
Refuse	889,704	1,346,947
Sundry debtors	17,619	2,244,913
	29,469,840	**26,428,801**

Net balance		
Rates	22,691,566	32,047,195
Electricity	8,543,155	3,360,718
Rentals	482,309	365,181
Refuse	1,020,859	260,683
Legal costs	74,236	76,479
Sundry debtors	7,102,340	5,938,127
	39,914,465	**42,048,383**

Age analysis

Rates		
Current (0 to 30 days)	3,059,082	174,720
31 to 60 days	3,932,513	2,629,150
61 to 90 days	2,683,655	1,914,962
91 to 120 days	1,506,242	1,534,481
121 to 150 days	1,168,405	1,283,049
151 days and over	33,068,078	28,490,511
	45,417,975	**36,026,873**

Electricity		
Current (0 to 30 days)	4,398,766	5,999,711
31 to 60 days	1,235,432	1,633,371
61 to 90 days	553,722	520,517
91 to 120 days	350,100	408,753
21 days to 150 days	333,070	641,778
151 days and over	7,508,173	13,013,851
	14,379,263	**22,217,981**

Notes to the Financial Statements

Figures in Rand	2013	2012
Refuse		
Current (0 to 30 days)	350,236	319,718
31 to 60 days	141,867	124,462
61 to 90 days	77,382	72,703
91 days to 120 days	61,873	59,736
121 to 150 days	52,640	54,760
151 days and over	1,226,565	976,251
	1,910,563	**1,607,630**
Sundries		
Current (0 to 30 days)	(20,252)	867,530
31 to 60 days	30,364	419,465
61 to 90 days	52,519	26,410
91 to 120 days	7,119	425,096
121 to 150 days	22,396	20,614
151 days and over	7,027,813	5,146,249
	7,119,959	**6,905,364**
Legal costs		
151 days and over	74,236	76,479
Housing		
Current (0 to 30 days)	45,427	57,949
31 to 60 days	28,268	28,002
61 to 90 days	17,984	13,960
91 to 120 days	12,302	29,658
121 to 150 days	10,027	6,201
151 days and over	368,301	229,411
	482,309	**365,181**
Reconciliation of doubtful debt provision		
Opening balance	26,428,801	7,843,379
Contribition made during the year	3,041,039	18,585,422
	29,469,840	**26,428,801**

Indigent customers

The indigent debtors receive 100kwh of free electricity per month provided that they have a prepaid meter installed in their home. Properties with a valuation up to a maximum of R200,000, are also exempt from paying refuse charges.

Consumer debtors impaired

As of 30 June 2013, consumer debtors of R 29,469,840 (2012: R 26,428,801) were impaired and provided for. This amounted to the bad debts provision.

The aging of these debtors is as follows:

3 to 6 months	29,469,840	26,428,801

The municipality profiled all debtors according to their risk profile. This risk profile was then used to calculate the doubtful debt provision.

Notes to the Financial Statements

Figures in Rand	2013	2012

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3,210	3,260
Short-term deposits	212,977	205,494
Bank overdraft	(4,490,966)	(6,204,218)
	(4,274,779)	**(5,995,464)**
Current assets	216,187	208,754
Current liabilities	(4,490,966)	(6,204,218)
	(4,274,779)	**(5,995,464)**

The Municipality has the following bank accounts:

Current accounts		
Cash book balance (Overdraft) at end of the year	(4,490,966)	(6,204,218)
Absa Bank Limited - Account No. 4063796636: Bank statement balance at year end (Primary account)	2,206,543	(4,952,898)
First National Bank Limited - Account No. 52530028614: Bank statement balance (Overdraft) at year end	7,859	154,878
Absa Bank Limited - Account No: 4063796636	25,221	160,062

Interest charged on the bank overdraft is at prime interest rate.

No security/encumbrances are provided to ABSA bank.

10. Revaluation reserve

Opening balance	151,770,228	153,828,042
Change during the year: Property, plant and equipment	-	18,745,273
Winding down of reserve	-	(20,803,087)
	151,770,228	**151,770,228**

The revaluation reserve has resulted from the revaluation of property, plant and equipment.

11. Housing operating account

Accumulated surplus/(deficit)	337,261	(496,688)
Loans extinguished by Government on 1 April 1998	15,343,977	15,343,977
	15,681,238	**14,847,289**

The housing operating account is represented by the following assets and liabilities

Housing inventory	15,681,238	14,557,625
Trade and other receivables	-	289,664
Assets	**15,681,238**	**14,847,289**

Notes to the Financial Statements

Figures in Rand	2013	2012

12. Annuity loans

At amortised cost		
Annuity loans	37,964,106	40,331,850
The loans attract interest at rates between 5% and 12.62% per annum, and are being redeemed in monthly and quarterly instalments.		

The annuity loans were acquired for the contruction of infrastructure. Construction was completed in 2009 and the municipality is currently redeeming the amount borrowed.

Non-current liabilities		
At amortised cost	31,816,209	34,058,881
Current liabilities		
At amortised cost	6,147,897	6,272,969

13. Finance lease obligation

Minimum lease payments due		
- Within one year	542,889	927,802
- In second to fifth year inclusive	600,483	1,226,886
	1,143,372	2,154,688
Less: Future finance charges	(63,944)	(333,452)
Present value of minimum lease payments	**1,079,428**	**1,821,236**
Present value of minimum lease payments due		
- Within one year	515,594	796,371
- In second to fifth year inclusive	563,834	1,024,865
	1,079,428	**1,821,236**
Non-current liabilities	563,834	1,205,026
Current liabilities	515,594	949,661
	1,079,428	**2,154,687**

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 4-5 years.

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 3.

In the prior year the finance lease liability was disclosed under other financial liabilities, it has been reclassified in the current year.

Notes to the Financial Statements

Figures in Rand	2013	2012

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Conditional grants from other spheres of government		
Municipal systems improvement grant	457,821	-
Data cleansing grant	1,495,026	-
Expended public works grant	2,979,133	-
Corridor development	6,279,384	2,729,732
Municipal infrastructure grants	850,734	5,415,236
Financial management grant	1,965,632	2,697,912
Provincial - Cedara College/Inkhanya Village Road	1,911,821	1,911,821
MAP Synergistic Partnership	368,389	368,389
Cleanest town award	316,600	316,600
Library Howick West Cyber Cadet	-	157,500
Library Nottingham Road staffing costs	-	64,766
	16,624,540	**13,661,956**

Movement during the year

Balance at the beginning of the year	13,661,956	21,749,757
Receipts during the year	34,129,353	16,580,698
Income recognition during the year	(31,220,662)	(24,668,499)
Correction of error/misallocation	53,893	-
	16,624,540	**13,661,956**

See note 22 for reconciliation of grants from other spheres of government.

15. Provisions

Reconciliation of provisions - 2013

	Opening balance	Interest wind down	Closing balance
Environmental rehabilitation	12,675,645	1,394,321	14,069,966

Reconciliation of provisions - 2012

	Opening balance	Additions	Interest wind down	Closing balance
Environmental rehabilitation	7,267,176	4,574,000	834,469	12,675,645

The landfill site provision is raised for the rehabilitation of the refuse disposal site to its original state once the site has reached the end of its useful life.

16. Trade and other payables from exchange transactions

Trade payables	6,829,461	16,073,842
Payments received in advanced	-	1,900,958
Unclaimed deposits	6,946,649	2,696,372
Accrued leave pay	7,514,003	7,634,197
Deposits received	(1,198)	43,742
Retentions	2,693,768	1,940,023
Other sundry creditors: District municipality	1,089,993	1,090,113
Sundry creditors	4,230,718	7,674,151
Museum trust account	195,915	180,023
	29,499,309	**39,233,421**

16. Trade and other payables from exchange transactions (continued)

The fair value of trade and other payables approximate their carrying amount.

17. VAT payable

VAT payable	2,415,503	2,557,140

VAT is payable on the receipts basis. Only once payment is received from debtors is VAT paid over to SARS.

18. Consumer deposits

Electricity	2,209,889	2,160,881

19. Revenue

Service charges	56,526,700	58,637,395
Rental of facilities and equipment	832,857	950,702
Licences and permits	1,916,480	1,929,645
Property rates	100,902,494	91,124,460
Property rates - Penalties imposed and collection charges	3,867,599	2,319,310
Government grants & subsidies	66,520,829	57,259,011
Fines	5,579,150	3,822,767
	236,146,109	**216,043,290**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	56,526,700	58,637,395
Rental of facilities and equipment	832,857	950,702
Licences and permits	1,916,480	1,929,645
	59,276,037	**61,517,742**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	100,902,494	91,124,460
Property rates - Penalties imposed and collection charges	3,867,599	2,319,310
Transfer revenue		
Government grants and subsidies	66,520,829	57,259,011
Fines	5,579,150	3,822,767
	176,870,072	**154,525,548**

Notes to the Financial Statements

Figures in Rand	2013	2012

20. Property rates

Rates received

Residential	71,920,476	59,887,499
Commercial	21,036,714	38,965,950
Small holdings and farms	31,909,022	29,527,977
Education and state	17,569,153	16,801,027
Private open space	4,200,794	4,873,650
Less: Income forgone rebates	(45,733,665)	(58,931,643)
Income received	100,902,494	91,124,460
Property rates - Penalties imposed and collection charges	3,867,599	2,319,310
	104,770,093	**93,443,770**

Valuations

Residential	9,465,900,400	8,261,966,400
Commercial	2,755,606,000	5,375,669,000
Education and State	2,325,554,000	2,317,838,000
Municipal	326,469,400	426,167,400
Agriculture	4,199,745,056	4,073,624,000
Private open space	552,892,700	672,359,600
	19,626,167,556	**21,127,624,400**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2011. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis with the final date for payment being 31 July 2013 (31 July 2012). Interest at 12% per annum (2012: 12%), is levied on rates outstanding one months after due date.

A basic rate of randage is applied to the valuations of all types of properties, the amount is 1.22 cents in the Rand (2012: 1.22 cents).

Rebates		
Agriculture - additional	83%	75%
Bona fide farmers	0%	0%
Residential (The first R100,000 is exempt in terms of the rates policy)	30%	30%
Pensioners (Qualifying on with income up to R9,000 on a sliding scale)	30%	30%
State	30%	30%

21. Service charges

Sale of electricity	48,717,670	50,447,663
Refuse removal	7,809,030	8,189,732
	56,526,700	**58,637,395**

The estimated distribution loss of R 23 942 431 (2012: R 21,436,421) is noted.

The contractor has finalised the project to identify losses and the recommendation is to undertake a full audit of all electrical installations within the area of supply. There is currently no funding available to begin this process.

The Municipality is applying its Credit Control and Debt Collection Policy and By-Laws in an effort to reduce losses, however the losses are of a technical nature and the Municipality is busy investigating strategies to further reduce the losses.

Figures in Rand	2013	2012

22. Government grants and subsidies

Equitable share	35,302,000	30,559,000
Provincial - Library extensions	-	35,923
Corridor development	2,309,242	6,255,160
Municipal infrastructure grant	23,613,855	11,976,601
Library Mpophomeni Internet cyber cadet 2011/12	111,000	105,800
Corridor funding LED strategy	-	38,920
Municipal systems improvement grant	342,178	790,000
Library Howick West cyber cadet 2010/11	2,232,280	59,175
Mpophomeni Nodal development	-	1,257,011
Provincial - Cedara College/Inkanyo Village Road	-	10,829
Provincial - Museum	134,000	125,000
Provincial - Health subsidies	-	2,031,513
Finance management grant	-	817,466
Library Mpophomeni - Head count system	-	7,292
MAP synergistic partnership	-	3,133
Library Nottingham Road staffing costs	64,767	-
Library Mpophomeni Internet cyber cadet 2010/11	96,000	84,000
Grant - Library staffing costs	1,134,000	518,132
Department of minerals and energy grants	-	2,561,557
Library Mpophomeni staffing costs	88,166	-
Library Howick West cyber cadet 2011/12	67,500	22,500
Expanded public works grant	1,020,867	-
Data cleansing grant	4,974	-
	66,520,829	**57,259,012**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

	35,302,000	32,590,513

Municipal Systems Improvement Grant

Balance unspent at beginning of year	-	-
Current year receipts	(800,000)	790,000
Conditions met - transferred to revenue	342,178	(790,000)
	457,822	**-**

Finance Management Grant

Balance unspent at beginning of year	(2,697,912)	(2,065,378)
Current year receipts	(1,500,000)	(1,450,000)
Conditions met - transferred to revenue	2,232,280	817,466
	(1,965,632)	**(2,697,912)**

Municipal Infrastructure Grant

Balance unspent at beginning of year	(5,415,235)	(4,044,836)
Current year receipts	(19,049,353)	(13,347,000)
Conditions met - transferred to revenue	23,613,855	11,976,601
	(850,733)	**(5,415,235)**

Roads and stormwater infrastructure are part of the upgrade of the informal settlement.

Notes to the Financial Statements

Figures in Rand	2013	2012

22. Government grants and subsidies (continued)

Department of Minerals and Energy Grant

Balance unspent at beginning of year	-	(2,561,557)
Current year receipts	-	-
Conditions met - transferred to revenue	-	2,561,557
	-	**-**

Electrification and new connections.

Mpophomeni Nodal Development

Balance unspent at beginning of year	-	(1,257,010)
Current year receipts	-	-
Conditions met - transferred to revenue	-	1,257,010
	-	**-**

Corridor Development

Balance unspent at beginning of year	(2,729,733)	(8,984,893)
Current year receipts	(905,000)	-
Conditions met - transferred to revenue	2,201,456	6,255,160
Other	53,893	-
	(1,379,384)	**(2,729,733)**

National road: N3 corridor development.

Provisonal Library Extensions

Balance unspent at beginning of year	-	(35,923)
Current year receipts	-	-
Conditions met - transferred to revenue	-	35,923
	-	**-**

Library Mpophomeni - Head count system

Balance unspent at beginning of year	-	(7,292)
Current year receipts	-	-
Conditions met - transferred to revenue	-	7,292
	-	**-**

Library Mpophomeni - Internet Cyber Cadet 2010/2011

Balance unspent at beginning of year	-	(84,000)
Current year receipts	(96,000)	-
Conditions met - transferred to revenue	96,000	84,000
	-	**-**

Notes to the Financial Statements

Figures in Rand	2013	2012

22. Government grants and subsidies (continued)

Library Mpophomeni - Internet Cyber Cadet 2011/2012

Balance unspent at beginning of year	-	-
Current year receipts	(111,000)	-
Conditions met - transferred to revenue	111,000	(105,800)
Other	-	105,800
	-	**-**

MAP Synergistic Partnership

Balance unspent at beginning of year	(368,389)	(371,522)
Current year receipts	-	-
Conditions met - transferred to revenue	-	3,133
	(368,389)	**(368,389)**

Cleanest Town Award

Balance unspent at beginning of year	(316,600)	(316,600)
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
	(316,600)	**(316,600)**

Library Howick West Cyber Cadet 2010/2011

Balance unspent at beginning of year	-	(59,175)
Current year receipts	-	-
Conditions met - transferred to revenue	-	59,175
	-	**-**

Library Howick West Cyber Cadet 2011/2012

Balance unspent at beginning of year	(67,500)	-
Current year receipts	-	(90,000)
Conditions met - transferred to revenue	67,500	22,500
	-	**(67,500)**

LED Strategy Corridor Funding

Balance unspent at beginning of year	-	(38,920)
Current year receipts	-	-
Conditions met - transferred to revenue	-	38,920
	-	**-**

Provincial - Cedara College/Inkanya Villlage Road

Balance unspent at beginning of year	(1,911,821)	(1,922,650)
Current year receipts	-	-
Conditions met - transferred to revenue	-	10,829
	(1,911,821)	**(1,911,821)**

Notes to the Financial Statements

Figures in Rand	2013	2012

22. Government grants and subsidies (continued)

Library Howick Staffing Costs

Balance unspent at beginning of year	-	-
Current year receipts	-	(129,533)
Conditions met - transferred to revenue	-	129,533
	-	**-**

Library Mpophomeni Staffing Costs

Balance unspent at beginning of year	-	-
Current year receipts	-	(129,533)
Conditions met - transferred to revenue	-	129,533
	-	**-**

Library Howick West Staffing Costs

Balance unspent at beginning of year	-	-
Current year receipts	-	(129,533)
Conditions met - transferred to revenue	-	129,533
	-	**-**

Library Hilton Staffing Costs

Balance unspent at beginning of year	-	-
Current year receipts	-	(129,533)
Conditions met - transferred to revenue	-	129,533
	-	**-**

Library Nottingham Road Staffing Costs

Balance unspent at beginning of year	(64,766)	-
Current year receipts	-	(64,766)
Conditions met - transferred to revenue	64,766	-
	-	**(64,766)**

Conditions still to be met - remain liabilities (Refer note 14).

Museum Howick

Balance unspent at beginning of year	-	-
Current year receipts	(134,000)	(125,000)
Conditions met - transferred to revenue	134,000	125,000
	-	**-**

Data Cleansing

Balance unspent at beginning of year	-	-
Current year receipts	(1,500,000)	-
Conditions met - transferred to revenue	4,974	-
	(1,495,026)	**-**

Notes to the Financial Statements

Figures in Rand	2013	2012

22. Government grants and subsidies (continued)

Expanded Public Works Program

Balance unspent at beginning of year	-	-
Current year receipts	(4,000,000)	-
Conditions met - transferred to revenue	1,020,867	-
	(2,979,133)	**-**

N3 Corridor

Balance unspent at beginning of year	-	-
Current-year receipts	(4,900,000)	-
	(4,900,000)	**-**

Libraries

Current year receipts	(1,134,000)	-
Conditions met - transferred to revenue	1,134,000	-
	-	**-**

Library Mpophomeni Staffing Costs

Balance unspent at beginning of year	(90,000)	-
Current year receipts	-	(90,000)
Conditions met - transferred to revenue	88,166	-
Correction of error	1,834	-
	-	**(90,000)**

Conditions still to be met - remain liabilities (see note 14).

23. Other income

Shared services model	505,240	771,939
Compound rental	208	288
Building plan fees and drainage fees	1,297,140	1,419,257
Contribution from accumulated surplus to fund assets - MG counter funding	-	1,298,814
Reconnection fee	627,518	241,057
Valuation fee	22,931	-
Hall hire	226,402	191,772
Burial fees	54,272	47,691
Advertising	93,501	106,413
Income from Milkwood Estates	353,228	311,383
Connection income	855,877	483,073
Income from rendering environmental health services	-	1,667,405
LGSETA receipts	285,247	94,718
Sponsorship received	358,187	42,105
Insurance claim received	-	229,754
Sundry income	293,880	1,074,474
	4,973,631	**7,980,143**

Notes to the Financial Statements

Figures in Rand	2013	2012

24. General expenses

Advertising	415,162	428,672
Auditor's remuneration	846,903	1,341,579
Bank charges	830,633	642,882
Material and small tools	152,982	148,040
Commission paid	2,596,383	1,134,672
Computer expenses	1,019,605	684,050
Consulting and professional fees	1,877,001	1,540,702
Consumables	8,019	-
Entertainment	4,805	4,664
Insurance	406,675	736,284
Community development and training	32,290	7,111
Lease rentals on operating lease	1,425,105	1,186,786
Promotions and sponsorships	58,599	47,850
Magazines, books and periodicals	26,848	31,336
Medical expenses	400	138
Motor vehicle expenses	269,305	288,073
Placement fees	-	6,596,098
Postage and courier	989,622	858,241
Printing and stationery	193,510	204,877
Security (Guarding of municipal property)	2,308,414	3,597,923
Subscriptions and membership fees	720,298	1,104,451
Telephone and fax	1,213,146	1,193,205
Training	74,312	20,368
Travel - local	390,254	264,508
Hygiene services	(43,722)	292,390
Electricity	4,016,977	4,477,530
Sewerage and waste disposal	11,413	808
Water	289,003	1,653,468
Refuse	75,675	222,415
Uniforms	276,389	44,111
Contribution to landfill site provision	-	4,574,000
Medical aid retired staff	579,042	553,452
Electricity connections	3,081,266	4,199,887
Contribution to fire fighting services	199,862	216,000
Veterinary department	860,500	858,077
IDP expenditure	103,340	99,999
Other expenses	1,180,304	1,622,874
Valuation expenses	691,351	189,299
	27,181,671	**41,066,820**

25. Grant expenditure

Libary computer assistant Mpophomeni	88,167	235,333
Library computer assistant Howick west	1,201,500	281,566
Finance management grant	2,068,291	817,466
Municipal systems improvement	342,178	790,000
Libary staffing costs	405,766	254,533
Data cleansing	4,974	-
Expanded public works programme	834,867	-
	4,945,743	**2,378,898**

Notes to the Financial Statements

Figures in Rand	2013	2012

26. Employee related costs

Basic	46,336,877	49,578,352
Bonus	3,710,803	4,155,725
Medical aid - company contributions	2,668,979	2,541,526
UIF	399,039	394,553
WCA	272,249	432,199
SDL	638,421	635,090
Leave pay provision charge	2,690,089	2,851,644
Post-employment benefits - Medical aid and long service	6,337,000	1,437,154
Post-employment benefits - Pension - Defined contribution plan	7,311,998	6,462,533
Overtime payments	3,935,359	3,581,509
Car allowance	534,295	806,356
Housing benefits and allowances	203,002	229,078
Cellphone allowance	47,000	62,000
Standby allowance	103,437	96,236
Uniform allowance	6,000	3,500
	75,194,548	**73,267,455**

Remuneration of municipal manager

Annual remuneration	721,858	-
Travel allowance	126,243	-
Annual bonuses	60,155	-
Cellphone allowance	18,000	-
	926,256	**-**

Remuneration of Chief Financial Officer

Annual remuneration	698,436	713,807
Travel allowance	129,120	140,858
Annual bonuses	14,316	59,484
Lump sum (Leave and bonus)	406,233	-
	1,248,105	**914,149**

Remuneration of General Manager Technical Services

Annual remuneration	766,059	717,510
Travel allowance	140,858	140,858
Annual bonuses	63,997	59,793
	970,914	**918,161**

Remuneration of General Manager Internal Audit

Annual remuneration	754,827	706,991
Car allowance	133,290	133,290
Annual bonuses	62,745	58,916
	950,862	**899,197**

Remuneration of General Manager Economic Development

Annual remuneration	-	292,638
Travel allowance	-	58,528
Annual bonuses	-	57,368
	-	**408,534**

Notes to the Financial Statements

Figures in Rand	2013	2012

26. Employee related costs (continued)

Remuneration of General Manager Community Services

Annual remuneration	638,064	717,510
Travel allowance	117,382	140,859
Annual bonuses	63,997	59,793
Acting allowance	307,907	-
	1,127,350	**918,162**

Remuneration of General Manager Planning and Development

Annual remuneration	762,105	713,807
Travel allowance	140,858	140,859
Annual bonuses	63,667	59,484
Acting allowance	49,903	53,503
	1,016,533	**967,653**

Remuneration of General Manager Corporate Services

Annual remuneration	762,105	713,807
Travel allowance	140,858	140,858
Annual bonuses	63,350	59,484
Acting allowance	-	134,188
	966,313	**1,048,337**

The municipality did not have a Municipal Manager in the prior year. Both the General Manager Corporate Services and General Manager Planning and Development acted as the Municipal Manager, and received acting allowances as above. The General Manager Planning and Development also acted as the Municipal Manager for the first 3 months of the current financial year.

The Municipal Manager was appointed during the current financial year.

27. Remuneration of councillors

Mayor's allowance	665,421	630,735
Deputy mayor's allowance	300,038	280,982
Speaker's allowance	300,038	280,982
Executive committee allowance	252,285	264,155
Councillors' allowance	3,947,611	3,711,024
	5,465,393	**5,167,878**

In-kind benefits:

The Mayor is employed on a full-time basis, and is provided with an office and secretarial support at the cost of the Council.

The Mayor has the use of Council owned vehicles for official duties.

The Mayor has two full-time bodyguards.

28. Bad debts

Debts written off	11,501,940	-
Contributions to bad debt provision	3,041,039	18,585,422
	14,542,979	**18,585,422**

Notes to the Financial Statements

Figures in Rand	2013	2012

29. Interest revenue

Interest revenue		
Other financial assets	771,718	208,954
Interest charged on trade and other receivables	1,683,320	1,075,725
	2,455,038	**1,284,679**

30. Depreciation and amortisation

Investment property	-	58,331
Intangible assets	197,144	15,788
Property, plant and equipment (Refer note 3)	43,943,705	33,438,600
Revaluation reserve wind-down (Refer note 10)	-	(20,803,088)
	44,140,849	**12,709,631**

31. Finance costs

Non-current borrowings	4,044,667	4,854,864
Trade and other payables	-	378
Finance leases	235,364	158,638
Bank	317,396	292,056
Landfill sites	1,394,321	834,469
	5,991,748	**6,140,405**

32. Auditors' remuneration

Fees	846,903	1,341,579

33. Bulk purchases

Electricity purchases	60,661,783	51,624,822

34. Cash generated from operations

(Deficit) surplus	(1,580,258)	1,285,374
Adjustments for:		
Depreciation and amortisation	44,140,849	20,858,581
Loss on sale of assets and liabilities	168,623	65,314
Movements in operating lease assets and accruals	22,371	(51,362)
Movements in retirement benefit assets and liabilities	6,337,000	1,437,154
Movements in provisions	1,394,321	5,408,469
Housing fund	833,949	-
Perior period adjustment	556,154	5,662,959
Changes in working capital:		
Other receivables	(461,810)	(1,728,503)
Consumer debtors	856,242	6,565,692
Trade and other payables from exchange transactions	(9,734,112)	(10,960,972)
VAT	(141,637)	197,875
Unspent conditional grants and receipts	2,962,584	(8,087,801)
	45,354,276	**20,652,780**

Notes to the Financial Statements

Figures in Rand	2013	2012

35. Commitments

Authorised capital expenditure

Approved and contracted for		
• Property, plant and equipment	-	124,051
• Mpophomeni Phase 8 & 9	-	26,061,672
• Midlands roads	959,763	-
• Mpophomeni roads and storm water	4,052,000	-
• Main Road Howick	3,557,546	-
• Electrification to pre-paid	1,000,000	-
	9,569,309	**26,185,723**

Approved but not yet contracted for		
• Roads transport	-	16,190,000
• Main Road 390 taxi facility	3,730,955	-
• Rehabilitation of internal roads in Mpophomeni	170,000	-
• Khayelisha roads	4,000,000	-
• Mpophomeni Springfield	2,000,000	-
	9,900,955	**16,190,000**

This committed expenditure will be financed as follows:

Internally generated funds	-	2,252,883
National and Provincial government and district municipality	19,912,000	40,142,840
	19,912,000	**42,395,723**

Operating leases - as lessee (expense)

Minimum lease payments due		
- Within one year	816,188	876,106
- In second to fifth year inclusive	173,245	1,292,986
	989,433	**2,169,092**

Operating leases consist of the following:

Operating lease payments represent rentals payable by the municipality for certain of its office properties (Taxi rank and White House) and equipment. Leases are negotiated for 3 years for the rental of the taxi rank and printers, and the lease periods for the White House is five years. No contingent rent is payable.

The municipality also leases land used for conservation purposes, the lease term for this land is 99 years. No escalation rate is applicable for the lease term.

Lease rentals for the taxi rank and printers escalate by 10% over the lease periods. Lease rentals for the White house are escalated at 8%.

Figures in Rand	2013	2012

36. Contingencies

As at the end of the financial year the municipality had the following litigation matters outstanding:

Cowcatchers are suing the municipality for attorneys fees resulting from the withdrawal of an application to the high court, for Cowcatchers to cease impounding animals within the municipal area. There could be future costs associated with the claim.

Mrs Burns is suing the municipality for a vehicle accident that was caused by driving into a pothole, the matter is still ongoing.

Skumbuzo Ngubane is suing the municipality for failure to properly stage his concert.

	2013	2012
Mrs Lorain Burns	800,000	800,000
Skumbuzo Ngubane	62,000	62,000
	862,000	**862,000**

JDJ Properties (Pty) Ltd and Double Diamond vs uMngeni Municipality and Triumph Brokers (Pty) Ltd. There could be future costs associated with the claim.

Tumbleweed Farm / Dlamini & Other vs uMngeni Municipality. There could be future costs associated with the claim.

Erf 1297 Hilton / Myles Colier vs GAMA & uMngeni Municipality as second respondent. There could be future costs associated with the claim

37. Comparative figures

Certain comparative figures have been reclassified.

Property, plant and equipment	
Balance per prior year AFS	613,391,360
Less: Restated balance per current year AFS	606,383,373
	7,007,987

In the current year, property, plant and equipment balances were restated in order to comply with GRAP 17.

Accumulated surplus	
Balance per prior year AFS	353,769,849
Less: Restated balance per current year AFS	346,783,722
	6,986,127

Finance lease obligation	
Balance per prior year AFS	2,176,547
Less: Restated balance per current year AFS	2,154,688
Reclassification of current and non current finance lease obligation in the current year.	21,859

38. Risk management

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluate credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

Financial assets exposed to credit risk at year end are noted under the respective Financial assets - Investments, Trade and other receivables and the Cash and cash equivalents notes.

Financial assets that are neither past due nor impaired are considered to be fully recoverable.

These balances represent the maximum exposure to credit risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At year end, financial instruments exposed to interest rate risk were as follows:
- Call deposits
- Notice deposits

Interest rate sensitivity

Fluctuations in interest rates will not expose the municipality to any significant interest rate risk. The municipality's income and operating cash flows are not substantially dependent upon on interest received.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of investments, cash and cash equivalents, consumer debtors and annuity loans. With all other variables held constant, the municipality's deficit for the year is affected through the impact on variable rate of investments, cash and cash equivalents, consumer debtors and annuity loans as follows:

Financial instrument - 2013	**2% increase**	**2% decrease**
Investments	335,287	(335,287)
Cash and cash equivalents	(85,496)	85,496
Consumer debtors	798,289	(798,289)
Annuity loans	(759,282)	759,282

Financial instrument - 2012		
Investments	48 300	(48 300)
Cash and cash equivalents	(119 909)	119 909
Consumer debtors	815 414	(815 414)
Annuity loans	(681 178)	681 178

39. Going concern

At 30 June 2013, the municipality had an accumulated losses of R 345,759,618 and that the municipality's total assets exceed its liabilities by R 513,211,084.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these are:

- Bi weekly meetings in the form of the Interim Finance Committee, to plan and approve only essential expenditure for the forthcoming weeks and to ensure that the unspent conditional grants are moving to a position of being cash backed.

- The Credit control and Valuation sub-committees meet monthly to tackle revenue enhancement issues by addressing the issue of outstanding debtors and valuation queries respectively. These committees have already achieved success by requesting all stakeholders involved in revenue enhancement to account monthly and provide direction on how to maximise revenue and reduce the outstanding debtors. A panel of attorneys have been appointed to assist with debt collection of debtors exceeding 90 days.

- Council and the Interim Finance committee is committed to turning the situation around and has frozen all vacant posts in order to curb expenditure, except critical posts or those funded by conditional grants.

- On the technical side, excess electricity losses have been identified and corrective action is being taken to remedy the situation by the Development of the Consumer Loss Analysis programme(CLA). This programme was specifically written to identify the electricity losses due to technical issues, theft of electricity, illegal connections, metered installations and correct the electricity billing cycle. The municipality has budgeted for the installation of smart meters in order to reduce electricity theft.

40. Events after the reporting date

At the time of the completion of the annual financial statements, there were no events after the reporting date affecting these financial statements.

41. Unauthorised expenditure

At the time of completion of the annual financial statements, there was no unauthorised expenditure.

42. Fruitless and wasteful expenditure

	2013	2012
Interest on late payment of EMP 201	-	232,225
Interest on late payment of annuaity loans	-	16,509
Interest on late payment of Eskom	317,396	84,170
	317,396	**332,904**

43. Irregular expenditure

	2013	2012
Traffic management technologies agreement	-	1,148,689
Irregular expenditure - current year	3,499,850	2,393,530
Amounts condoned	3,499,850	-
Amounts not condoned by council	-	38,199
	6,999,700	**3,580,418**

There were SCM deviations amounting to R3,499,850 (2012: R2,393,530). These have been classed as irregular expenditure.

44. In-kind donations and assistance

During the current financial year, KwaZulu Natal Provincial Treasury appointed resources to assist with the preparation of 2012/2013 Annual Financial Statements.

Notes to the Financial Statements

Figures in Rand	2013	2012

45. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

46. Addional Disclosure in terms of Municipal Finance Management Act

	2013	2012
Contributions to organised local government		
Council subscriptions	697,491	359,850
Audit fees		
Current year audit fee	1,414,174	1,162,074
Amount paid - current year	(846,903)	(1,312,056)
	567,271	**(149,982)**
VAT		
VAT received (paid) for the year	5,691,262	6,885,198
Current year payroll deductions	10,977,138	10,723,612
Amount paid - current year	(10,977,138)	(10,723,612)
	-	-
Pension and Medical Aid Deductions		
Current year payroll deductions and Council Contributions	15,099,371	14,763,496
Amount paid - current year	(15,099,371)	(14,763,496)
	-	-

There were no amounts due from Councillors and staff at as the end of the year.

Notes to the Financial Statements

Figures in Rand	2013	2012

47. Prior period error

Corrections were made to the following errors in the prior years:

- Depreciation was incorrectly calculated in prior years for certain roads and stormwater assets.
- Certain toolbox assets were incorrectly classified as heritage assets.
- Certain moveable assets (toolbox) were identified during physical verification that had previously been removed from the prior year fixed asset register, these have been reinstated.
- Certain moveable assets were not recognised in the fixed asset register.
- Useful lives of moveable assets have been reassessed.
- Certain vehicles were identified that were not recognised in the fixed asset register, certain vehicles were recognised at incorrect costs.
- The above issues have been adjusted in the financial statements for the current and prior years and the effect is as follows:

	2013	2012
Statement of Financial Position		
Accumulated Surplus (Restated)	-	(1,231,253)
Property, plant and equipment - Cost	-	1,500,904
Property, plant and equipment - Accumulated depreciation	(8,186,611)	(291,511)
Finance lease liability	-	21,860
Statement of Financial Performance		
Depreciation	8,186,611	-
	-	**-**